2014
FEDERAL FARM BILL

THE DAIRY SUBTITLE OF THE
AGRICULTURAL ACT OF 2014

2014 FARM BILL
DAIRY SUBTITLE

- September 1, 2014: USDA to establish the "Margin Protection Program for Dairy Producers"
- All dairy operations in the U.S. are eligible
  - Must register for coverage - $100/year administrative fee
  - Multiple owners of one dairy = one covered entity
  - One owner of multiple dairies = multiple covered entities
  - Choice <u>between</u> "Livestock Gross Margin for Dairy" or "Margin Protection Program," but not both

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- MARGIN PROTECTION PREMIUMS paid by producer
  - USDA multiplies:
    - 1) the percentage of coverage chosen by the producer,
    - 2) the production history of the producer's dairy farm (highest annual marketings during 2011, 2012, or 2013 chosen by the producer), and
    - 3) the premium per/cwt. as outlined below
  - For the 1st 4 million pounds production: the lowest level of coverage is for a $4.00 margin – which costs nothing
  - Top level of coverage is for an $8.00 margin - $0.475/cwt
  - >4 million pounds - $4.00 margin coverage is still free, but premiums rise more sharply than the premium scale for < 4 million
  - Top level of coverage for an $8.00 margin - $1.360/cwt
  - There is a 25% reduction in all the premiums for 2014 and 2015 – except for the $8.00 margin

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- MARGIN PROTECTION PAYMENTS – paid by USDA
- Triggered when "actual dairy production margins" (the difference between the all-milk price and the average feed costs – calculated by USDA every 2 months) <u>are less than</u> the margin coverage level chosen by the producer
- USDA then multiplies:
  - 1) the difference between the "actual dairy production margin" and the producer's chosen margin coverage by:
  - 2) the percentage of production coverage chosen, and
  - 3) the production history of the producer's dairy divided by 6

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- Beyond Margin Insurance….
  - Most interesting to CA producers: they can enter the Federal Milk Marketing system and reblend revenues based on quota value (a fixed differential quota/overbase payment system) – same language as in the 1996 Farm Bill
  - Of less interest: the Support Program is repealed
    - USDA purchase prices of dairy products have been too low to be effective
    - California produces nearly 50% of US milk powder, and at points used the Commodity Credit Corporation as the customer of last resort for surplus product
    - Industry moving beyond reliance on the Support Program as the backstop for surplus product - a marker of how far California has come in meeting real commercial market demand

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- Of less impact: a dairy product donation program is established to assist when farm operating margins are slim (<$4.00 for 2 mo)
  - Dairy products to be purchased at "market prices" and distributed – not stored – until termination thresholds are met:
    - 3 months of purchases have been made, even if margins remain low, or
    - Low margins persist, but US prices for cheese and powder exceed world prices by a specified percentage
- Aggravating but nearly over: MILC is continued until the Margin Protection Program is certified as operational, or September 2014, whichever is earlier
- Even less impact: Dairy Export Incentive Program is repealed